



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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FILE COPY

July 9, 2009

Dana Person, Executive Director
North Newstead Association
4601 Pope Avenue
St. Louis, MO 63115

RE: Community Development Block Grant (CDBG)
(Project #2009-CDA40)

Dear Ms. Person:

Enclosed is a report of the fiscal monitoring review of the North Newstead Association, CDBG programs, for the period January 1, 2008 through October 31, 2008. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of North Newstead Association. Fieldwork was completed on December 18, 2008.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the City of St. Louis, Community Development Administration (CDA) to provide fiscal monitoring to all federal grant sub-recipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,


Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Lorna Alexander, Special Assistant for Development, CDA
Jill Claybour, Acting Executive Director, CDA
Beatrice Burt, Executive Director, New Vision Child Development Center



CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**NORTH NEWSTEAD ASSOCIATION
CONTRACTS #08-31-54 AND #08-11-90
CFDA #14.218**

**FISCAL MONITORING REVIEW
JANUARY 1, 2008 THROUGH OCTOBER 31, 2008**

PROJECT #2009-CDA40

DATE ISSUED: JULY 9, 2009

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
NORTH NEWSTEAD ASSOCIATION
FISCAL MONITORING REVIEW
JANUARY 1, 2008 THROUGH OCTOBER 31, 2008**

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INTRODUCTION

Background

Contract Name: North Newstead Association, and
New Vision Child Development Center

Contract Numbers: 08-31-54 (North Newstead Association) and
08-11-90 (New Vision Child Development Center)

CFDA Number: 14.218

Contract Periods: January 1, 2008 through October 31, 2008

Contract Amounts: \$150,000 (#08-31-54) and \$140,852 (#08-11-90)

The contracts provided Community Development Block Grants (CDBG) funds to North Newstead Association (Agency) to combat physical deterioration in the Agency's neighborhood through home improvement, infrastructure enhancements and commercial redevelopment; and to provide affordable day care and child development services to families in the same vicinity.

Purpose

The purpose of this review was to determine the Agency's compliance with federal, state and local Community Development Administration (CDA) requirements for the period January 1, 2008, through October 31, 2008, and make recommendations for improvements as considered necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grants administered by (CDA). Evidence was tested supporting the reports the Agencies submitted to CDA and other procedures were performed as considered necessary. Fieldwork was completed on December 18, 2008.

Exit Conference

An exit conference was conducted at the Agency on June 25, 2009. Dana Person, Executive Director, North Newstead Association; Beatrice Burt, Executive Director, New Vision Day Care Center; Bobby Dissenganner, Treasurer, North Newstead Association; Karen Randolph, Office Manager, North Newstead Association; and Dianna Williams, Development Manger, North Newstead Association, represented the Agency. Christopher Whitmore, Auditor I; and Jeremy Holtzman, Auditor II, represented The Internal Audit Section. Antoinette Clark, Programmatic Monitor; and Lorna Alexander, Special Assistant for Development, represented CDA.

INTRODUCTION

Management's Responses

Management responses to the observations and recommendations were received July 2, 2009 and have been incorporated into this report.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with federal, state and local CDA requirements.

Status of Prior Observations

The Agency's previous fiscal monitoring report, Project # 2008-CDA16, dated September 26, 2008 contained six observations:

1. The Agency has going concern issues (**Resolved**)
2. The Agency needs to improve its internal controls (**Repeated, see Current Observation #5**)
3. The Agency did not comply with contract's personnel schedule (**Resolved**)
4. The Agency did not have internal procurement procedures (**Resolved**)
5. The Agency needs to safeguard grant funded fixed assets (**Resolved**)
6. The Agency did not file monthly financial reports in a timely manner (**Repeated, see Current Observation #4**)

A-133 Status

According to a letters received from the Agency, dated February 8, 2008 and November 17, 2008, the Agency did not expend \$500,000 or more in federal funds in the fiscal year ended December 31, 2007, and was not required to have an A-133 audit.

Summary of Current Observations

Recommendations are for the following observations which if implemented could assist the Agency in fully complying with federal, state and local CDBG requirements.

1. Opportunity to request reimbursement only for expenses incurred and paid
2. Opportunity to file IRS Form 990
3. Opportunity to maintain accounting records
4. Opportunity to submit monthly financial reports in a timely manner
5. Opportunity to update Agency's policies and procedures manual

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANGEMENT'S RESPONSES

1. Opportunity to Request Reimbursement only for Expenses Incurred and Paid

The Agency requested reimbursement for non-payroll expenditures that had not yet been paid.

For the Agency's contract #08-31-54, a sample of seventeen non-payroll expenses was tested for the months of March and June 2008. The Agency requested and received reimbursements for thirteen of the seventeen non-payroll expenditures tested, totaling \$2,970.96 prior to their payment. Copies of the checks were included with the reimbursement requests; however, they were not cashed by their vendors until an average of 39 days after receiving the reimbursements. On average, the thirteen checks cleared the bank 39 days after the date written on the check.

Cost reimbursement grant agreements have a requirement that the sub-recipient must have incurred and paid an expense before requesting its reimbursement.

The Agency is not in compliance with CDA regulations. The Office Manager acknowledged there were times when the Agency did not have sufficient funds to pay for non-payroll expenditures prior to requesting reimbursement.

Non-compliance with the reimbursements requirements of the grant agreement is a breach of the agreement and may result in its suspension or termination.

Recommendation

It is recommended that the Agency establish and implement internal controls to ensure its compliance with the requirements of the grant agreement by only requesting reimbursement for expenses that have already been paid.

Management's Response

As detailed in the exit conference, North Newstead Association (NNA) meets twice monthly with authorized Board Members to have checks signed. Often there is either a delay in when the check was signed and when it is mailed, we were awaiting reimbursement from previous request, or the vendor delayed cashing the checks. We also were reminded in the exit conference that checks should be released within three days of reimbursement. We concur that our process has flaws and while it is not our intent, these various delays can create an appearance of non-compliance.

North Newstead Association will secure additional funds in our operating account to assure sufficient capital. NNA is also in the process of developing a new Policies & Procedures Manual. Internal controls for this process are established in this P & P Manual. We will comply with this recommendation in the future.

**DETAILED OBSERVATIONS, RECOMMENDATIONS,
AND MANGEMENT'S RESPONSES**

2. Opportunity to File IRS Form 990

It could not be determined if the Agency filed its IRS Form 990 (Annual Information Return) for fiscal year 2007.

The IRS requires IRS Form 990 to be filed for most organizations exempt from income tax under Internal Revenue Code section 501 (a) by the fifteenth day of the fifth month after the end of organization's accounting period.

The Agency was not able to provide proof that they filed 2007 IRS Form 990.

If the Agency does not file IRS Form 990 by the filing deadline, the Internal Revenue Service (IRS) assesses a penalty of \$20 a day, not to exceed the smaller of \$10,000 or 5% of the gross receipts of the organization for the year, unless the organization can show that the late filing was due to a reasonable cause. Such penalties cannot be paid out of the grant funds.

Non-filing of the IRS Form 990 may cause the Agency to lose its not-for-profit status, and may result in termination of the Agency's grant agreement with CDA.

Recommendation

It is recommended that the Agency submit the past due fiscal year 2007 IRS Form 990 as soon as possible and make available proof that the returns have been completed and filed. In addition, the Agency implements internal controls to ensure that IRS Form 990's, for the future periods are completed and filed timely.

Management's Response

We concur that while we requested an extension, the 2007 IRS Form 990 was not timely filed, we did provide a copy of the filed report to Internal Audit in the exit conference. We have requested the IRS supply verification of 2008 extension as well. We will comply with this recommendation in the future. Internal controls will be established in the P & P Manual.

**DETAILED OBSERVATIONS, RECOMMENDATIONS,
AND MANGEMENT'S RESPONSES**

3. Opportunity to Maintain Accounting Records

The Agency did not maintain accounting records of its grant funds and did not prepare financial statements of its operations.

The Accounting Records Section of the CDA Operating Agency Fiscal Procedures Manual states, "Each Operating Agency is required to have accounting records that adequately identify the source and use of CDBG funds provided to them. In addition, each organization must maintain a separate set of books for each Community Development Block Grant-funded project it has a contract to operate." The procedures further state that in order to meet this requirement, all operating agencies include at the minimum:

- A standard general ledger
- A chart of accounts with a comprehensive listing of account codes used to:
- - Record and report financial information
 - Track revenue and expenditure budgets
 - Insure budgets are within contractual limits
 - Prepare financial statements

According to the Agency, in July 2008, it contracted with A CPA firm to prepare monthly financial statements. However, as of the end of the fieldwork the Agency had not received any financial statements or other accounting records.

Since the Agency did not maintain grant funds' accounting records and did not prepare financial statements, it could not be determined if the Agency had:

- Any going concern issues (The Agency will continue to do business for the foreseeable future)
- Other funding sources outside of the grants passed through the City of St Louis
- Adequate separation of accounting for grant funds to prevent co-mingling of the grant funds with the non-grant funds

Recommendation

It is recommended that the Agency maintain adequate accounting records of the grant funds to comply with the requirements of the CDA Operating Agency Fiscal Procedures Manual.

**DETAILED OBSERVATIONS, RECOMMENDATIONS,
AND MANGEMENT'S RESPONSES**

3. Continued...

Management's Response

While we agree our processes need to be improved, we do not concur with the findings that the agency did not maintain accounting records. NNA did have a GL and Chart of Accounts at the time of the audit (which we provided at the exit conference.)

In addition, the agency contracted a CPA firm to prepare "annual" financial statements, who at the time of the audit, were in possession of financial records for compilation and were also to assist the agency in updating our data. We agree the data should have been more readily accessible, our staff should have been more proficient, and we should have supplied the information once we received the reports from our external firm. Since the audit, we continue to improve financial reporting and controls. Internal controls will be established in the P & P Manual.

Auditor's Comment

During the fiscal monitoring review, the Chart of Accounts, General Ledger, and a copy of the Agencies' monthly financial statements ending October 31, 2008 were requested. After several attempts to collect these items, they were not provided.

**DETAILED OBSERVATIONS, RECOMMENDATIONS,
AND MANGEMENT'S RESPONSES**

4. Opportunity to Submit Monthly Financial Reports in a Timely Manner

The Agency did not submit monthly financial reports by the deadline set by the grant contract agreement.

The grant agreement #08-31-54 had seven of eight monthly financial reports submitted late an average of five days; and the grant agreement contract #08-11-90 had three of five monthly financial reports submitted late an average of seven days.

The CDA grant agreement (page 3) with the Agency state that monthly financial reports shall be submitted no later than the 10th calendar day of the following month to the Comptroller's Office- Federal Grants Section.

The Agency's Office Manager was mailing the monthly financial reports on the 10th of the month. This caused the reports to be received by Federal Grants after the 10th of the month.

The Agency did not comply with the requirements of its grant agreements with CDA. Non-compliance with the grant agreements may cause delay in processing reimbursement requests or suspension/termination of the grant agreement.

Recommendation

It is recommended the Agencies comply with requirements of the contract agreements and submit monthly financial reports by the 10th day of the following month.

Management's Response

We concur that reports were mailed on or around the 10th and therefore did not reach Federal Grants section in time. We now fax/mail reports and agree to comply with the proposed recommendations. Internal controls will be established in the P & P Manual.

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANGEMENT'S RESPONSES

5. Opportunity to Update Agency's Policies & Procedures Manual

Written policies & procedures communicate to the appropriate staff management's goals and objectives for the organization's operations. In addition, written procedures document business processes and personnel responsibilities, promote uniformity in executing and recording business transactions, and serve as training tools.

The Agency's policies and procedures manual is outdated and does not address the following control deficiencies:

Segregation of Duties

The Agency's personnel perform incompatible duties. The Agency's Office Manager distributes the mail, processes expenditures, and performs bank reconciliations; the Development Specialist collects rent from the rental units, writes the checks to pay rental property expenditures, records and deposits rental income collected.

Duties of functions within an entity should be separated so that one person does not process a transaction from beginning to end. Duties that should be segregated include:

- Authorization
- Custody of assets
- Recordkeeping
- Reconciliation

In those instances where duties cannot be fully segregated, mitigating or compensating controls must be established. These controls are additional procedures designed to reduce the risk of errors and irregularities. For instance, if the record keeper also performs a reconciliation process, a detailed review of the reconciliation could be performed and documented by a supervisor to provide additional control over the assignment of incompatible duties.

The Agency does not have sufficient number of staff to ensure one person does not perform processing from the beginning to end of a process.

In the absence of segregation of duties or mitigating or compensating controls the following could occur:

- Misappropriation of assets
- Misstated financial statements
- Inaccurate financial documentation (errors and irregularities)
- Improper use of grant funds

**DETAILED OBSERVATIONS, RECOMMENDATIONS,
AND MANGEMENT'S RESPONSES**

5. Continued...

Tracking the Use and Accrual of Vacation and Sick Leave

Timesheets and pay stubs were sampled for the months of April and September 2008. For the contract #08-31-54 (North Newstead Association), the Agency did not track the accrual and use of employees' vacation and sick leave paid through CDA funds.

A log for accrual and usage of employees' paid leave was not provided when requested by IAS.

CDA procedures state, "any time off with pay must be supported by cumulative records displaying time off as earned less time allowed and be maintained by the Operating Agency for each employee."

The Agency was unaware of the requirement for keeping a centralized log of employee accrual and use of paid leave.

The lack of formal procedures for tracking paid leave accrued and used may result in employees being paid for hours not worked, discrepancies regarding leave time earned and used, and abuse of paid leave by employees. If such events occur, CDA may suspend or terminate funding to the Agencies

Backup for Accounting Records

The Agency was unable to access valuable information stored on the Office Manager's computer for days when it crashed.

Sound internal controls require the Agency to have electronic data backup storage in multiple forms (hard copy printouts, flash drives, and CD storage disks) for recovery of valuable information in case one source malfunctions or fails.

The Agency did not have a data backup system in place to prevent accidental loss and provide immediate accessibility of valuable information needed for the daily operations of the Agency.

When financial records are not properly backed-up, the Agency may lose valuable information supporting the accounting of the grant funds and may require numerous additional hours to recreate the lost information.

**DETAILED OBSERVATIONS, RECOMMENDATIONS,
AND MANGEMENT'S RESPONSES**

5. Continued...

Recommendations

It is recommended that the Agency comply with CDA procedures and improve internal controls by developing and implementing:

- Policies and procedures specific to the Agency's daily operations and for each job function within the agencies should be written and maintained by the Agencies. Job functions should be approved by management and board members and distributed to the relevant staff. In addition, to prevent disruption daily office functions, staff should be cross-trained or backup personnel should be assigned in the event regularly assigned personnel are not able to perform the duties. All revised procedures, job functions, and operating policies should be included within the Agencies' updated procedures manual.
- Segregating duties among employees so that one employee does not perform a process in its entirety (collecting, recording, depositing funds and reconciling to the accounts bank statements). If such duties cannot be adequately segregated, supervisors or board members should perform a periodic review of the work performed.
- Maintenance and monitoring of the records of paid leave balances accrued and used for each employee, especially if CDA funded.
- Regular backup of the financial information by acquiring flash drives, CD storage disks, or by renting an offsite storage facility for financial records required for the agencies' daily operations to ensure services and programs are not interrupted.

Management's Response

As previously reported, North Newstead Association is developing a new Policies & Procedures Manual which is currently in draft format and will be submitted to both CDA and Internal Audit upon Board approval (est. July 2009). While the items cited in the findings will be addressed specifically in this manual, please note our responses;

Segregation of Duties (As previously reported to and deemed acceptable CDA)

North Newstead Association has implemented new procedures to comply with the Internal Audit recommendations of separation of duties. Currently, our process calls

**DETAILED OBSERVATIONS, RECOMMENDATIONS,
AND MANGEMENT'S RESPONSES**

5. Continued...

for the each "department" to act as the intermediary of each others functions. For example, concerning the processes of the rental side of our business - the Development/Property Manager collects rents, the Office Manager then records and enters each tenants rent into the accounting system and generates a deposit slip, then the D/P Manager makes the deposit, these deposits are reviewed every two weeks by the ED and two authorized board members. The Office Manager and/or Executive Director opens mail and invoices are forwarded to the D/P Manager for review and check processing. Once again, all checks are reviewed by the ED and signed by two authorized board members. The Office Manager then performs the bank reconciliation. This process is reversed for the office operation side of our business. Currently, all staff and authorized board members have access and/or knowledge to all financial transactions conducted in the Agency.

Vacation Log

A central vacation/sick leave log was established after the audit and documentation was provided at the exit conference. Internal controls will be established in the P & P Manual.

Backups (CD backup – Monthly) – On/Off site storage

A central data backup process was established after the audit and disc were provided at the exit conference. Internal controls will be established in the P & P Manual.